

MAINE'S REAL ESTATE FUTURE....

THE GOOD

THE BAD

THE UGLY

THE OUTLOOK

**Presentation of:
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**To:
The MEREDA 2002 Real Estate Forecast Conference
January 24, 2002**

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MEREDA OUTLOOK CONFERENCE

JANUARY 24, 2002

INTRO

Good afternoon – It is a pleasure to be here for this, my 9th consecutive outlook conference. While honored to be here, I admit I am puzzled! As I am sick of hearing myself talk – I figure you must be as well.

Cover SLIDE

In an effort to try to be creative, I've organized this talk on the themes

Maine's Real Estate Future...	The Good
	The Bad
	The Ugly
	The Outlook

Please note the symbolism on the cover page. In a nutshell – as we look at the myriad of factors that affect real estate, there's more Good than Bad – and even less Ugly

Given the fact that we're sitting in the middle of a recession – this could be a whole lot worse. Imagine, for a moment, the relative size of these words if I were addressing you in Jan. 1991.

SLIDE 1 Real Estate Employment Index

Let's start by examining the factors that bode well for real estate's future

First and foremost – this industry grew at a reasonable & sustainable pace thru 90s

Why is this so important? Well – let's look at history

After tracking US growth thru the 70s & early 80s

- ME's real estate sector exploded
- veering off the trend line

In fact from 1980 to its peak in 1988

- Real Estate Employment in Maine doubled from 8,000 to 16,000
- That's nearly 3 new workers everyday for 8 years
- This rate of growth was over 3 times the national increase

As we know now – the “correction” that took place in the early 90s

- was extremely painful
- rocked our foundation

So the good news is:

Since this expansion was not marked by a Real Estate Boom, this recession will not be marked by a Bust

SLIDE 2 Banking Employment Trends

Similarly – the Banking Industry, which had been pulled into the real estate boom / bust cycle a decade ago, is far more stable and is expected to weather this recessionary storm quite well.

It is interesting to note – while banking employment took a hit in the early 90s, it only took about 4 years to recover to peak employment levels. It will take the real estate sector nearly 10 years to fully recover.

SLIDE 3 Maine Banking Non-Performing Loans

The stable employment picture in banking reflects the solid underlying performance of Maine banks.

Whereas Maine banks were rife with bad loans in the late 80s, early 90s.

Simply not so today.

SLIDE 4 NE Commercial & Savings Banks - % Profitable

Understanding that Maine business and industry secures financing from far beyond our state borders, it's encouraging to note the health of New England's financial institutions.

Even before entering the recession in 1990, New England's banks were struggling.

By 1990 – only 1/3 were profitable.

By stark contrast – virtually 100% of the region's banks were profitable thru 3Q 2001.

SLIDE 5 Comic – Oil Prices

So – the real estate industry itself is stable and the state and regional banking industry is strong.

Another set of positive factors has to do with the prices Maine consumers are facing for critical expenditures, not the least of which is oil prices

SLIDE 6 Me Average Cash Price - No. 2 Oil

Here's some good news for the 75% of Maine homes that heat with some form of petroleum product.

While prices are not as low as the 98/99 heating season, when prices held in the 70¢-80¢ per gallon range from Oct – April, prices are not expected to spike upward as they did in the winter 99/00 when the coldest part of the winter was met with \$1.78 oil.

Similarly prices this October started out at \$1.20, which is 25¢ below last winter, and have fallen to \$1.11, which is 35¢ lower than last Jan or about 25% lower.

These prices, combined with relatively mild temperatures, are great news for virtually everybody except, or course, the oil dealers.

SLIDE 7 Maine Gasoline Prices

And for Maine's vast fleet of commuters traveling into the service center communities to work from the far-flung communities where they live, the 50¢ reduction in gasoline prices is a tremendous relief.

On average, Mainers commute 17 minutes to work and 85% of freight is shipped by truck. Needless to say, a 30% reduction in price is a welcome relief to individuals and business alike.

SLIDE 8 Mortgage Rates

Another factor that bodes well for real estate is mortgage rates. The Fed's aggressive monetary policy through 2001 brought mortgage rates tumbling down, shaving 3 full percentage points from rates by year-end. This drop in rates has led to a spate of refinancings.

Nationally, it has been estimated that in 75% of all refinancings, people refinanced for amounts that were higher than the principal owed, which freed up a lot of cash that could be used to pay down debt or finance ongoing expenditures.

SLIDE 9 Growth in Repeat Sales Home Prices

Now – these next 2 charts could, arguably, be placed in either the Good, the Bad, or even the Ugly category. It truly depends on your perspective - whether you're a buyer or a seller.

For Maine buyers – the 17% price inflation thru the 90s pales by comparison to the 153% run-up in prices in the 80s.

For sellers- price increases thru the 90s is second only to Massachusetts.

SLIDE 10 Median Existing Home Sales Price Index

Now the characterization of this next chart as Good also needs some clarification. This shows the Median Home Price for each state in 79, 89 and 99 relative to the U.S. median price.

As we look across the decades, we see that in 1979, the median price of a Maine home was 52% of US median.

By 1999- that price had grown to 70% of the US average, but it is still a bargain. And as you compare ME's 1999 prices to those of the other N.E. State's, you see – Maine is a bargain throughout the region & is nearly ½ the Massachusetts median.

Now for the major caveat:

These are statewide averages and can, therefore, be very misleading.

For example:

While the statewide median home price is \$102,656, a Portland Press Herald Article published Jan. 23, 2002 pegs median prices in York County at \$230,000.

Yikes!

According to the nationwide survey by the National Association of Home Builders of 186 housing markets, "Southern Maine and Seacoast N.H. ranked 10th from the bottom in terms of affordability"

"The area made the list behind 9 communities in California, including San Diego, San Francisco and Santa Cruz"

Perhaps we need to re-name our towns San-Kennebunk or Santa Ogunquit!!

SLIDE 11 Prime Rate

Looking towards Commercial & Industrial Real Estate activity - there is more Good News. The Prime Rate has fallen like a rock to 5.1% in November. That, combined with strong financial institutions, bodes well for business loans.

SLIDE 12 CMP C&I Growth

And a look at Commercial & Industrial customer growth at the State's largest utility is very encouraging. Gains in C & I business entities continued thru 2001 – even with a National recession which we now know started early in the year.

SLIDE 13 Construction Contract Awards

Construction contract awards remain strong.

Residential - not exuberant – but steady

Non-Residential – has been expanding

Non-Building – came down after the pipeline build-out, but still buoyed by state and municipal investment in infrastructure.

SLIDE 14 Maine Population Change

Finally – brand new to the Good category – Population growth!

After several years of abysmal performance, the end of the 90s brought modest growth around ½ % per year. But the most recent data shows 9,000 new people in Maine last year. Near 8/10s % growth – which is more like our experience of the 80s!

SLIDE 15 Real GDP & CPIU

I wouldn't be a good economist if I didn't mention some Bad News. So let's turn to the Bad. I guess it is worth mentioning that we are in a recession. But if you gotta have a recession this is definitely the type to have.

Now the last national downturn in the early 90s was mild by historical measures - with ½% decline real GDP and CPIU in the 4-6% range. But this recession is expected to be the mildest in 4 decades. Annual figures won't even dip into the negative zone.

- Real GDP will slow to ½% in 2002 before popping up.
- CPIU will remain in the 2-3% range.

SLIDE 16 W&S Employment

Maine's downturn has also arrived with little flourish. An employment slide of 1,500 jobs through 2001 would hardly be considered dramatic. Especially when compared to the 35,000 job losses over an 18-month period in 1990-91. Realistically, layoff notices are rising and the bulk of job losses may likely be ahead of us, but even the most dismal projections call for ¼ - 1/3 the economic loss of the last downturn. Still, any level of layoffs will put a damper on real estate activity.

SLIDE 17 Personal Income Growth - ME vs. U.S.

Another trend which is a bit discouraging is income growth. Despite the fact that Maine has enjoyed respectable income growth in the 5-6% range over past few years, ME's growth has lagged behind national growth for over a decade. That means that the gap that separates ME from the nation is growing worse.

SLIDE 18 CMP Residential Customer Gains

And despite strong population growth this past year, CMP's new residential hook-ups have dropped off.

SLIDE 19 Maine Household Change

As we step back and take a longer view of the residential real estate market, it's interesting to consider how these two trends will impact both the growth in demand for housing and the relative size or characteristics of houses. First off, while the rate of household formation has long outpaced population growth, as baby boomers age the household formation rate is slowing, from 25% during the 70s, to 18% in the 80s, to 11% in the 90s. At the same time, the number of persons per household has dropped from 3.3 in 1960 to 2.4 in 2000.

SLIDE 20 Unemployment Rates ME vs. US

After 7 years of sharp decline, ME's unemployment rates have spiked upwards. In truth, the rate remains below the US average and very low for a state like Maine. This factor shouldn't put much of a drag on real estate.

SLIDE 21 S&P 500

Finally – in the bad category is stock market activity. This a tough call for me because the market slide from March 2000 - October 2001 was definitely UGLY. But the last 2 months have shown some recovery and many believe the "Correction" is behind us – but this bears watching.

SLIDE 22

Comic – Christmas Bills

Finally – what you’re all been waiting for: The few! The proud! The ugly!

When I scan the economic horizon and assess Mainers’

- ability to make big purchases
- willingness to make big purchases
- ability to secure financing

a few issues rear their ugly heads.

One has to do with the financial health of Maine households. For several years now – Consumer Spending in ME has outstripped income growth. And activity since Sept. 11th is fairly amazing. Auto sales were up 32% in Oct. and 23% in Nov. in ME.

SLIDE 23

Maine Bankruptcy Filings

So

- we’re in a recession
- income growth has lagged the US for 11 consecutive years
- we suffer a devastating attack on Sept. 11th
- then car sales rise 32% in Oct. and 23% in Nov.??

I wonder why our bankruptcy filings are up?

Note that in 2000 – at the top of this business cycle peak, bankruptcies were 4 times the level of the last business cycle peak. The rate of increase during 2001 is very similar to the rise in 1990.

SLIDE 24

ME Personal Debt Levels

As of the second quarter of 2001, credit outstanding as a percentage of disposable income passed 21% and continues upward. Remember, this does not include mortgages, it is mostly credit cards.

Now speaking of credit cards, here’s a couple of factoids:

I read that from 1998 – 2000, the percentage of college students with credit cards rose from 67% to 78%, and the average credit card debt of college students rose from \$1,879 to \$2,748. What a great way to start your working life! Will they be in the market for homes soon?

2nd factoid – a recent National Survey for 2002 asked:

What’s your most important New Year’s resolution?

- 30% - lose weight (age old favorite)
- 28% - pay down debt

SLIDE 25

Multiple Job Holdings

Maine’s multiple job holding rate drifted upwards to 8.6% in 2000, fully 33% above the US average. This is neither healthy nor sustainable.

SLIDE 26

US Savings Rate

And I sure hope you folks aren’t hoping that anybody out there is saving for a down payment on a new home!

The US Savings Rate, which averaged 10% thru the 70s & early 80s, fell to 8% in the late 80s, then has been in a free fall. A recent article on this topic was entitled “Lower than a Snake’s Belly”.

SLIDE 27 Consumer Confidence

As we assess ME people's willingness to purchase big ticket items like houses, we must consider Consumer Confidence. But then again, housing and auto sales have continued thru this tumultuous period – so who knows!

SLIDE 28 People on Food Stamps

Finally, the number of people on foodstamps has been rising fairly steadily - reminding us that many people in ME continue to live on the edge.

THE OUTLOOK

SLIDE 29 Real GDP & CPIU

So to summarize the outlook:

- The national recession is expected to be short & sweet
- Recovery is expected to start in the 2Q or 3Q of 2002
- Real GDP will spring back in 2003
- Inflation will remain below 3%.

SLIDE 30 ME W&S Growth/Forecast

ME wage and salary employment will likely decline in 02 as layoffs take their toll, but losses will be less than 1% as compared to 6% in the last downturn. Slow population growth will constrain employment growth going forward.

SLIDE 31 ME Personal Income Forecast

**Likewise, income growth will slow to 3% in 02, then bounce back to the 4.5% level.
Not terribly exciting – but not horrific either.**

SLIDE 32 ME Housing Permits

The outlook for housing growth in ME is for modest annual gains

- with the vast majority in single family units
- reflecting relatively slow population growth and the subsiding rate of household formation

However –2 caveats:

- The level of permitting could rise if recent population growth (+9,000 in 01) is the start of a trend – rather than just a blip.
- Also – as the number of people per household drops off – the mix might change as more people demand multi family units.
- Time will tell.

SLIDE 33 ME County Population Forecast

Finally, real estate activity will vary widely across ME, with the coastal region remaining very strong and the central-inland very weak.

CHART 1

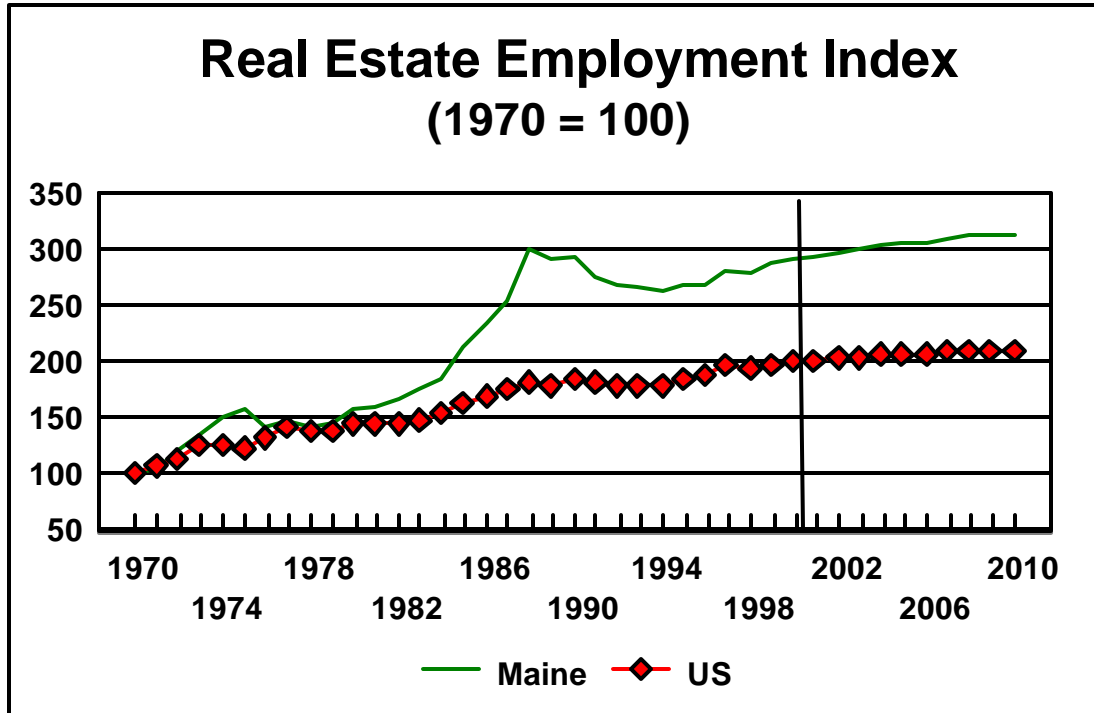


CHART 2

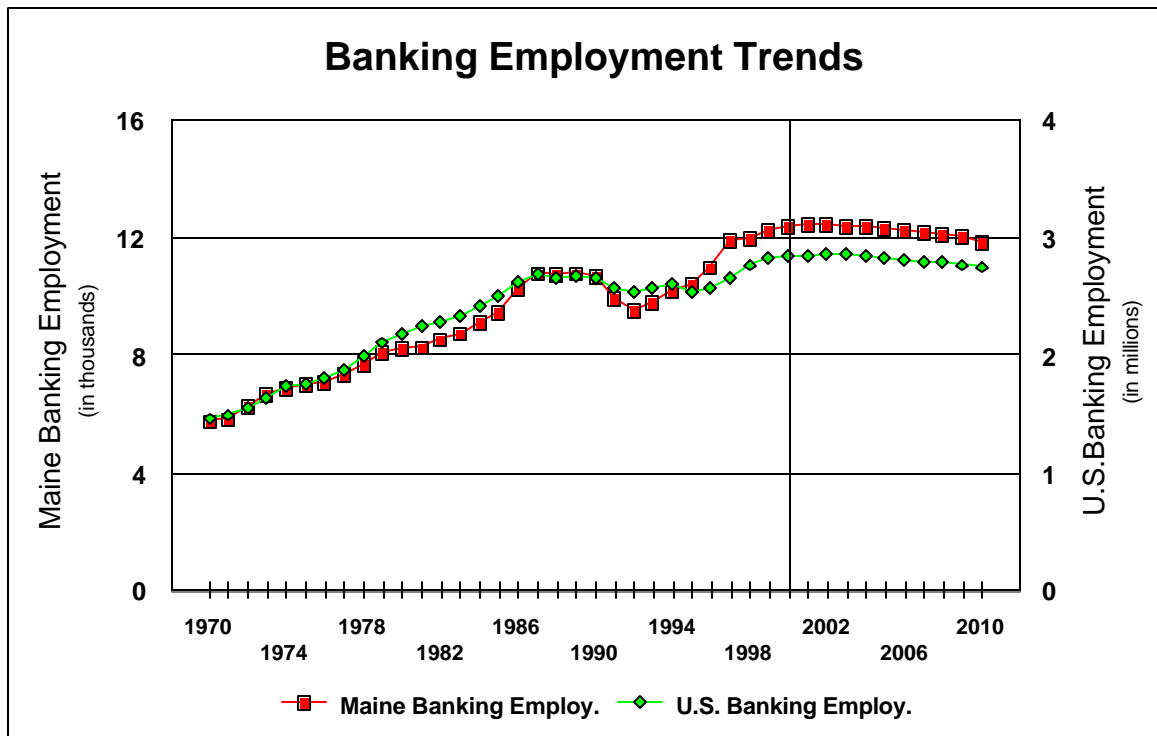


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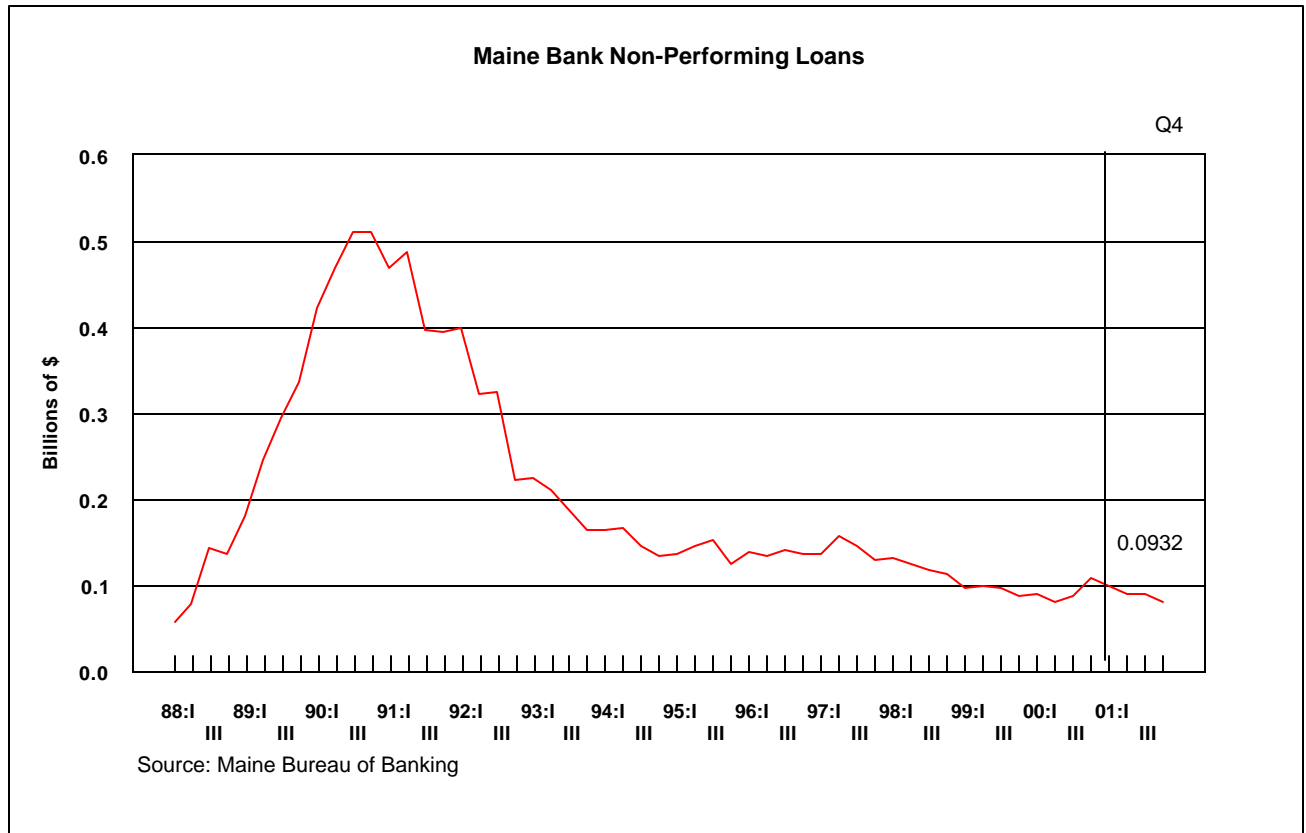


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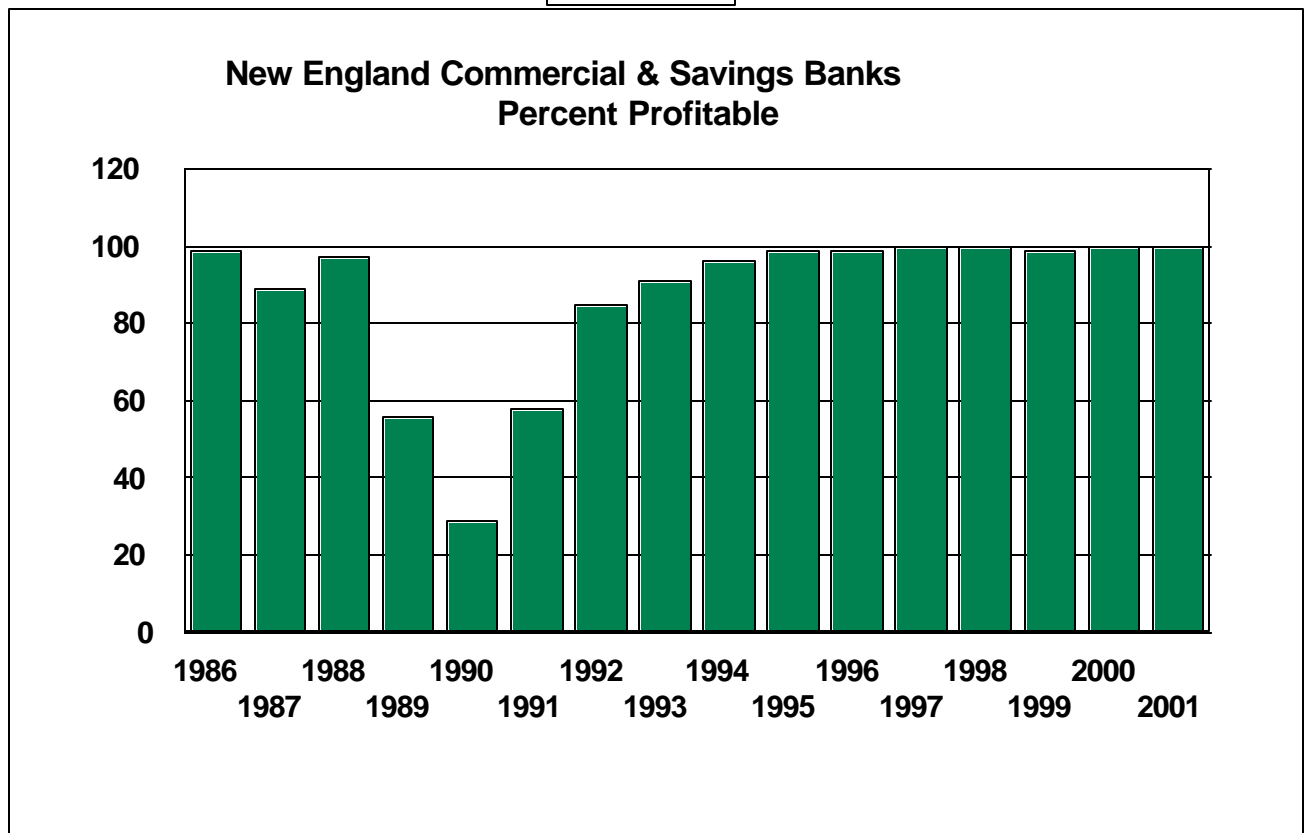


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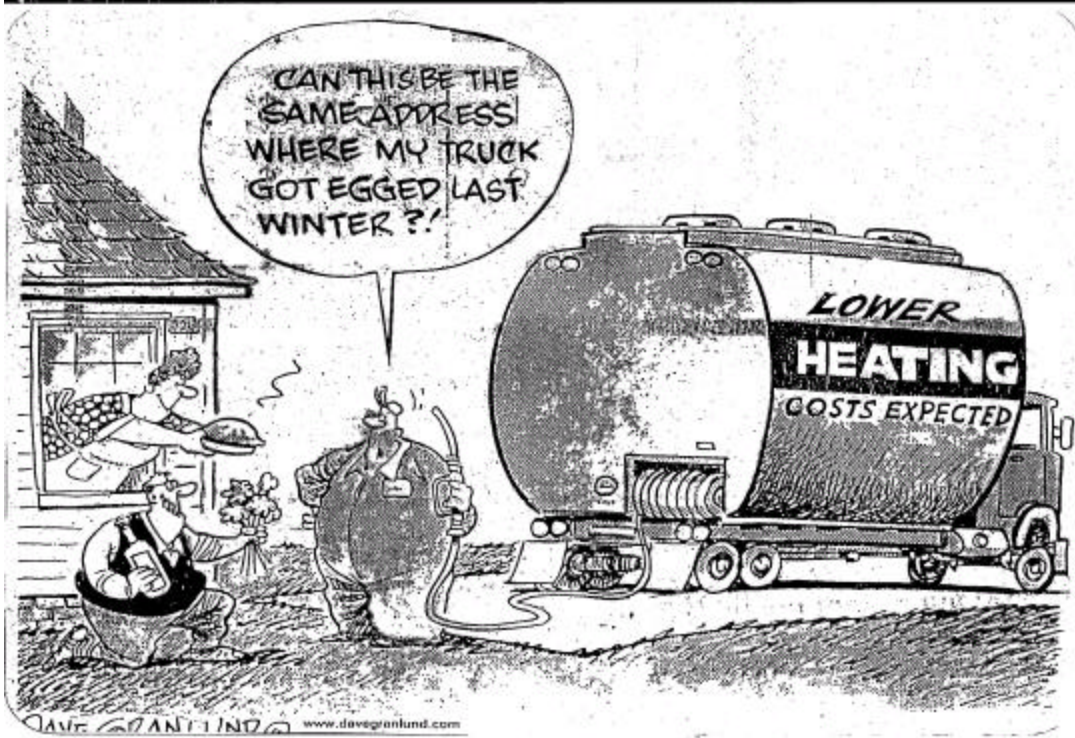


CHART 6

Maine Statewide Average Cash Price for No.2 Heating Oil

Maine State Planning Office January 2002

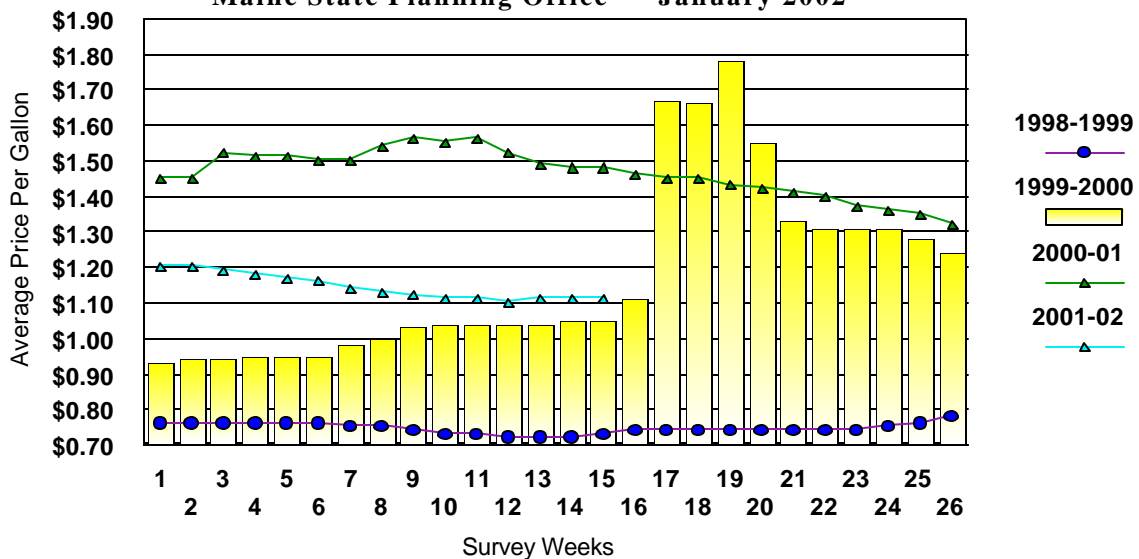


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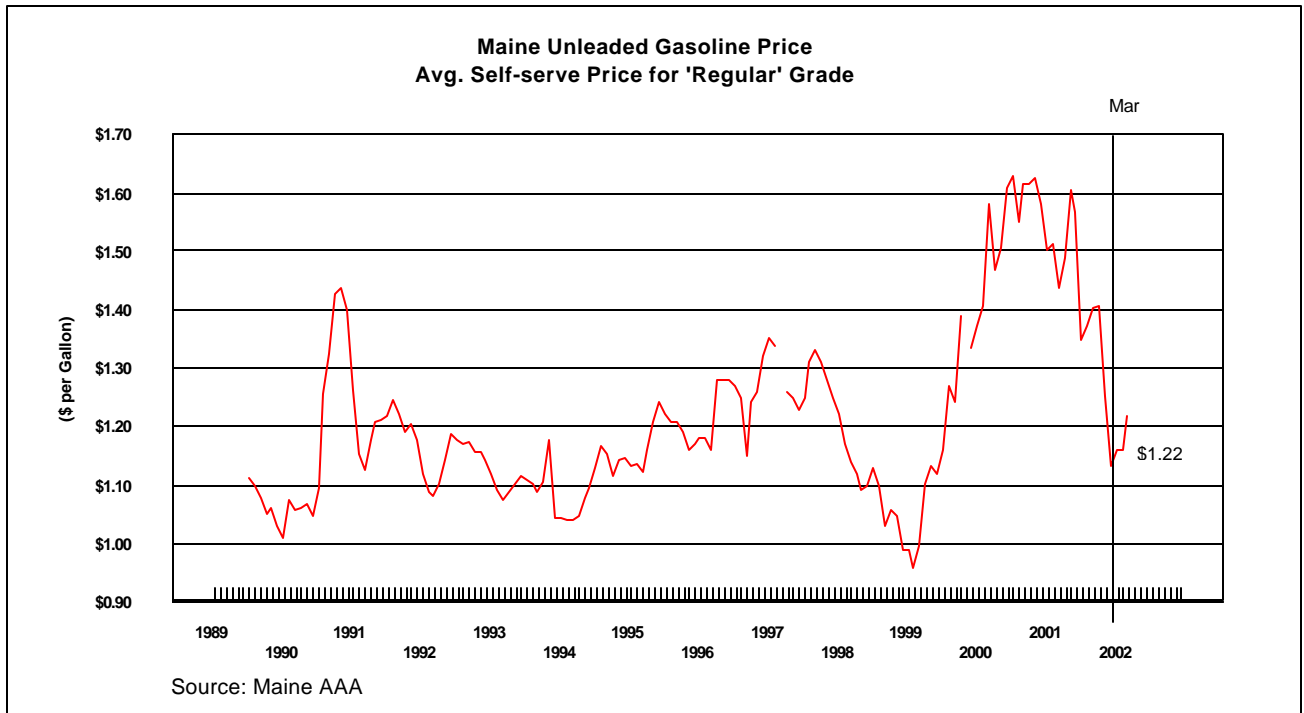


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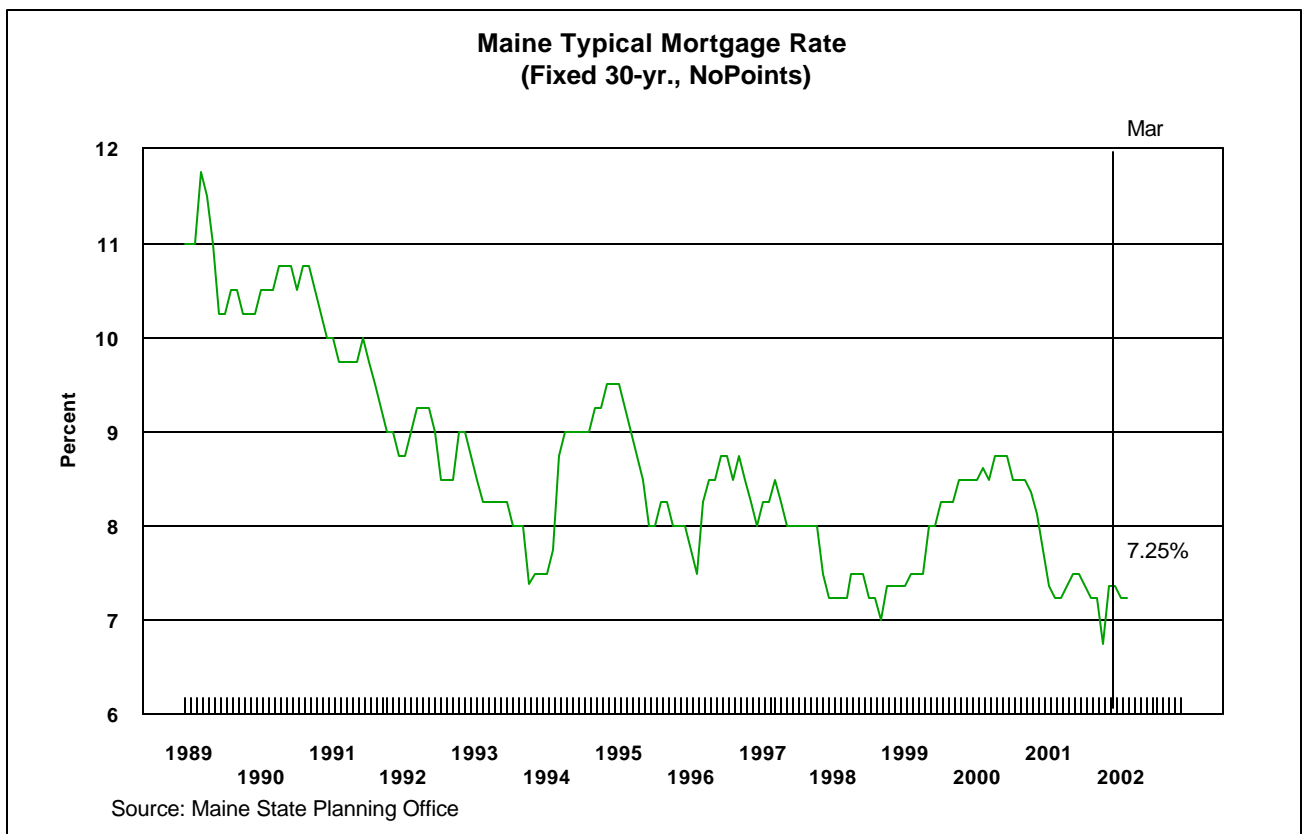


CHART 9

Growth in Repeat-Sales Home Prices

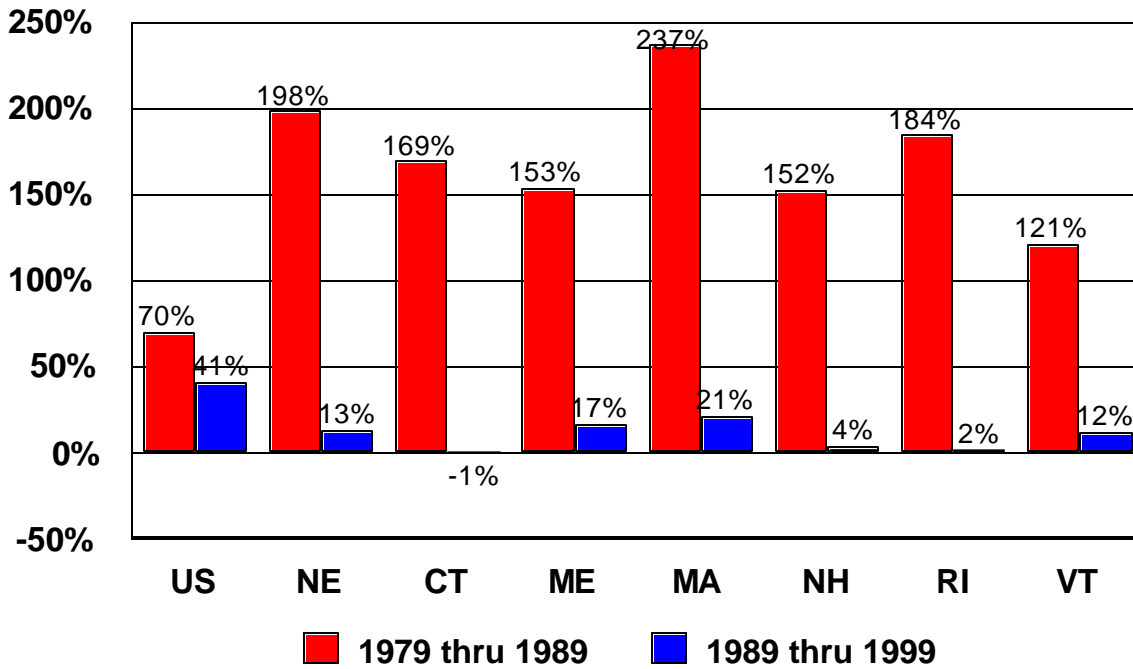


CHART 10

Median Existing Home Sales Price Index US = 100

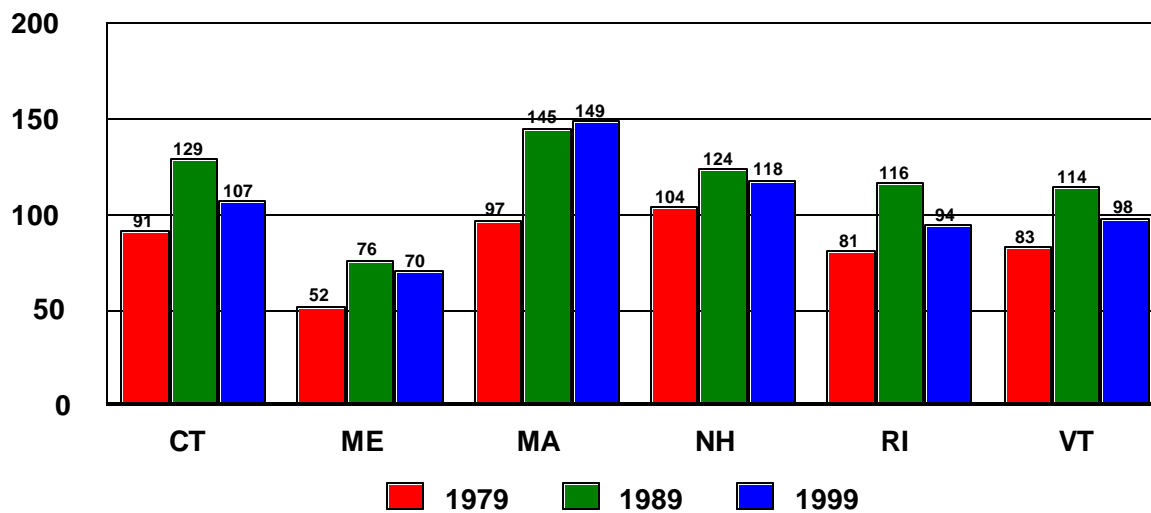


CHART 11

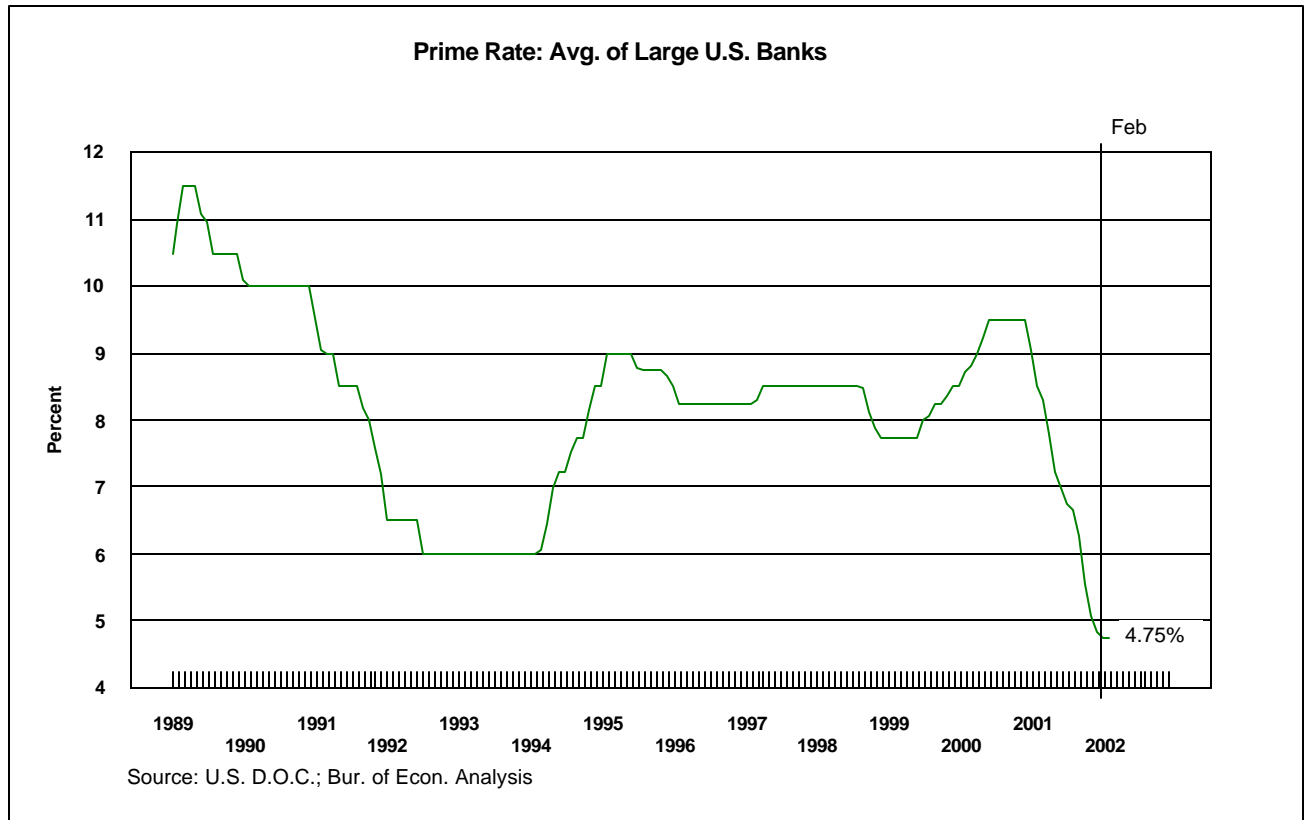


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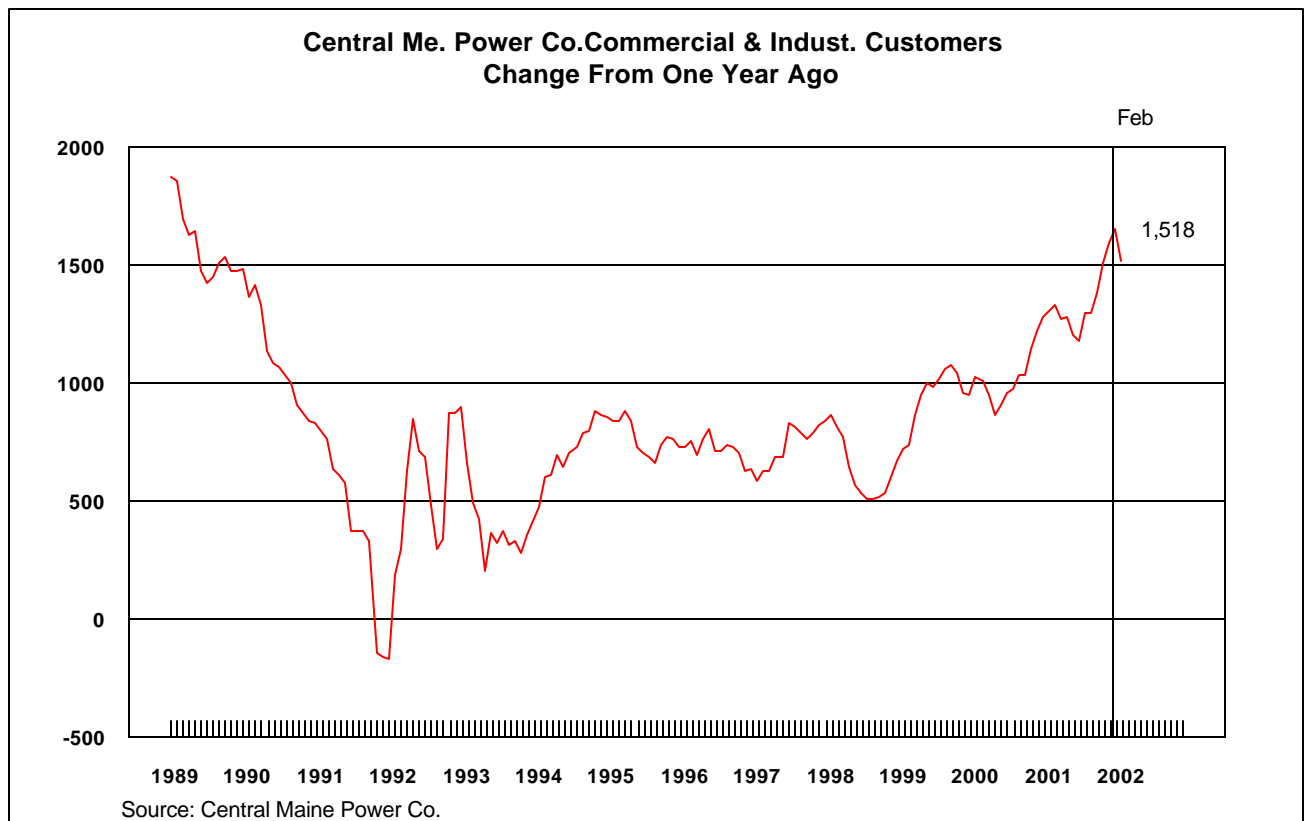


CHART 13

Maine Contract Construction Awards (Billions of \$)

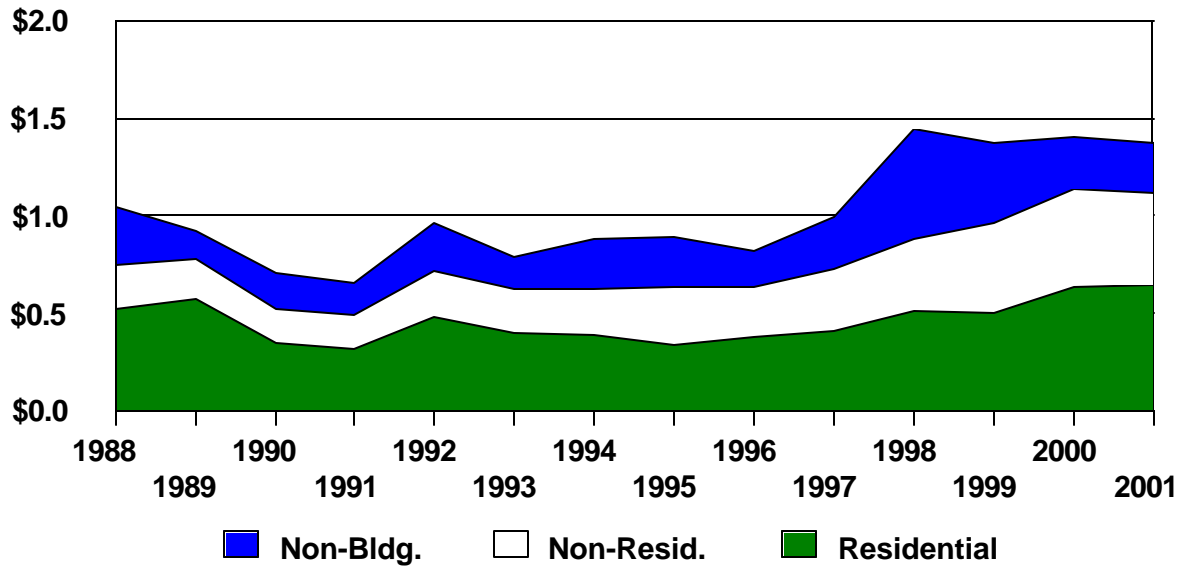


CHART 14

Maine Population Change 1989-2001

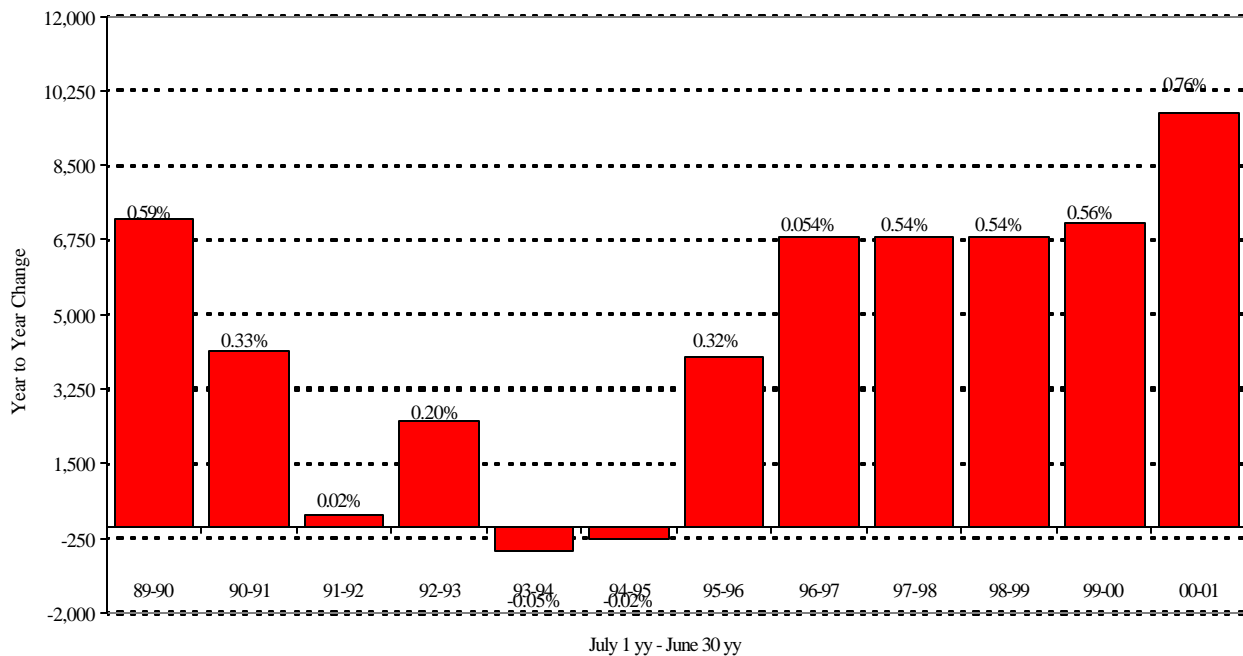


CHART 15

Real Gross Domestic Product and Consumer Price Index

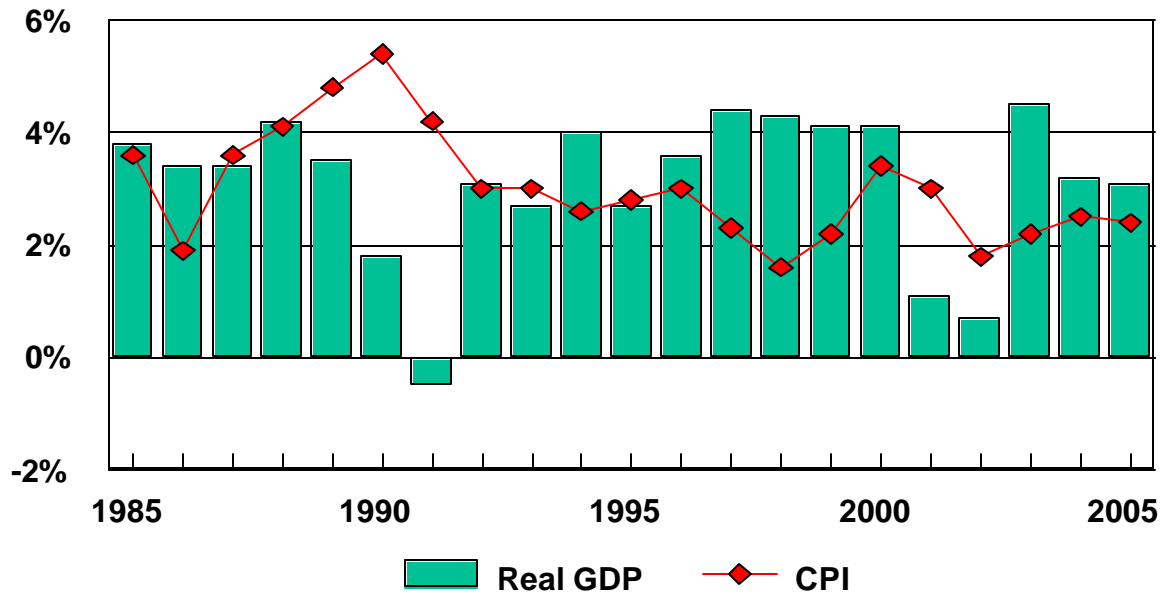


CHART 16

Maine Wage & Salary Employment seas. adjusted 1,000's

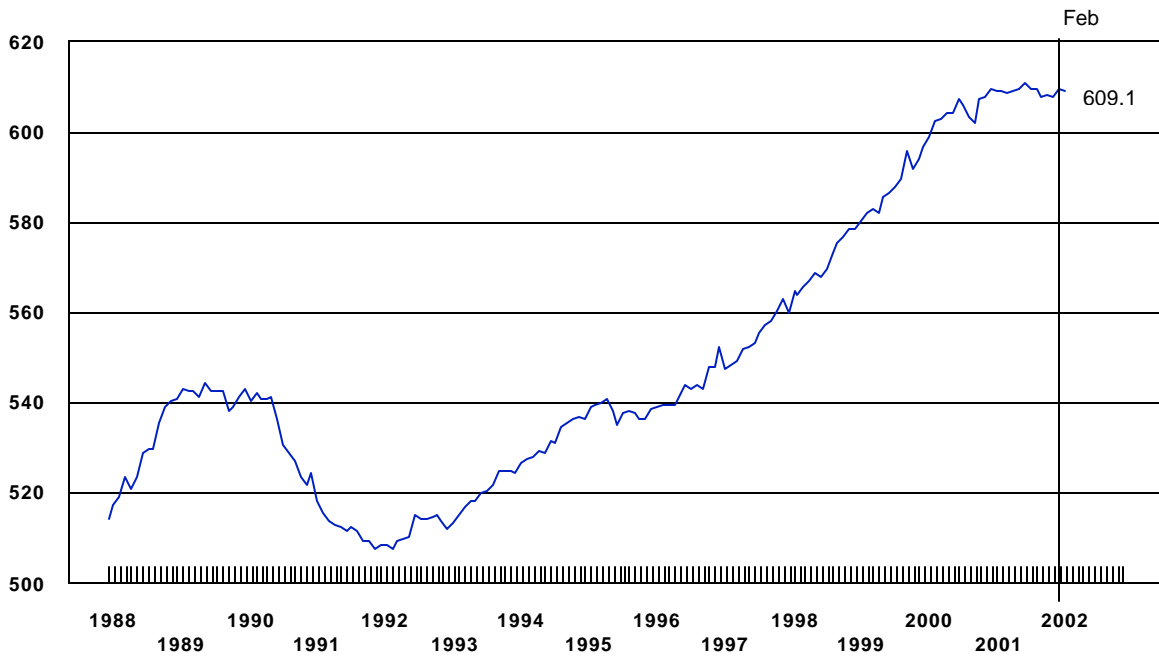


CHART 17

Personal Income Growth; ME & US

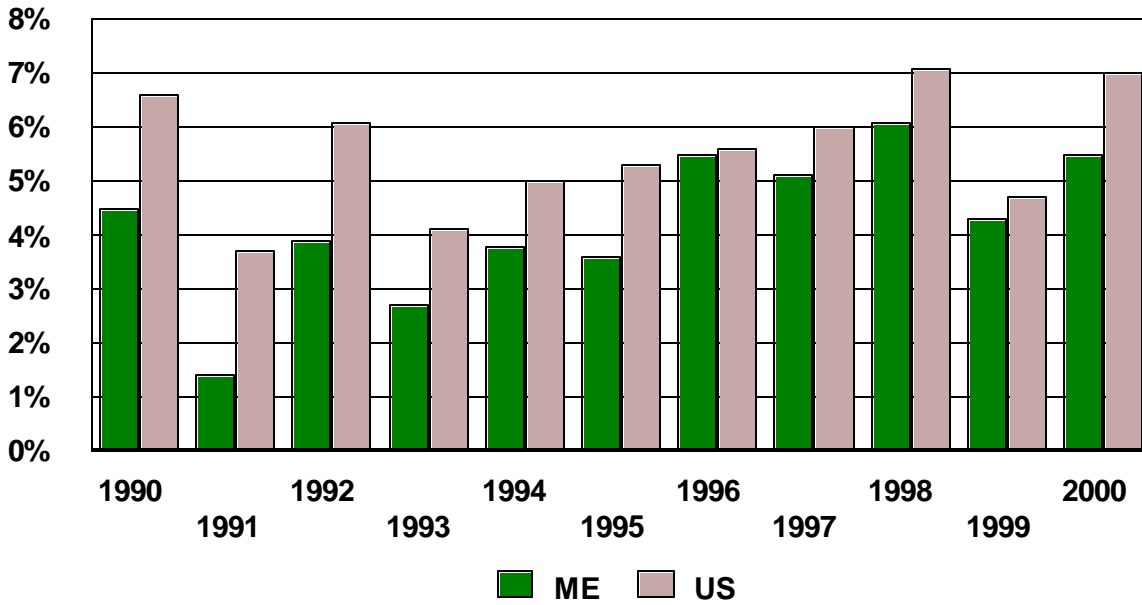
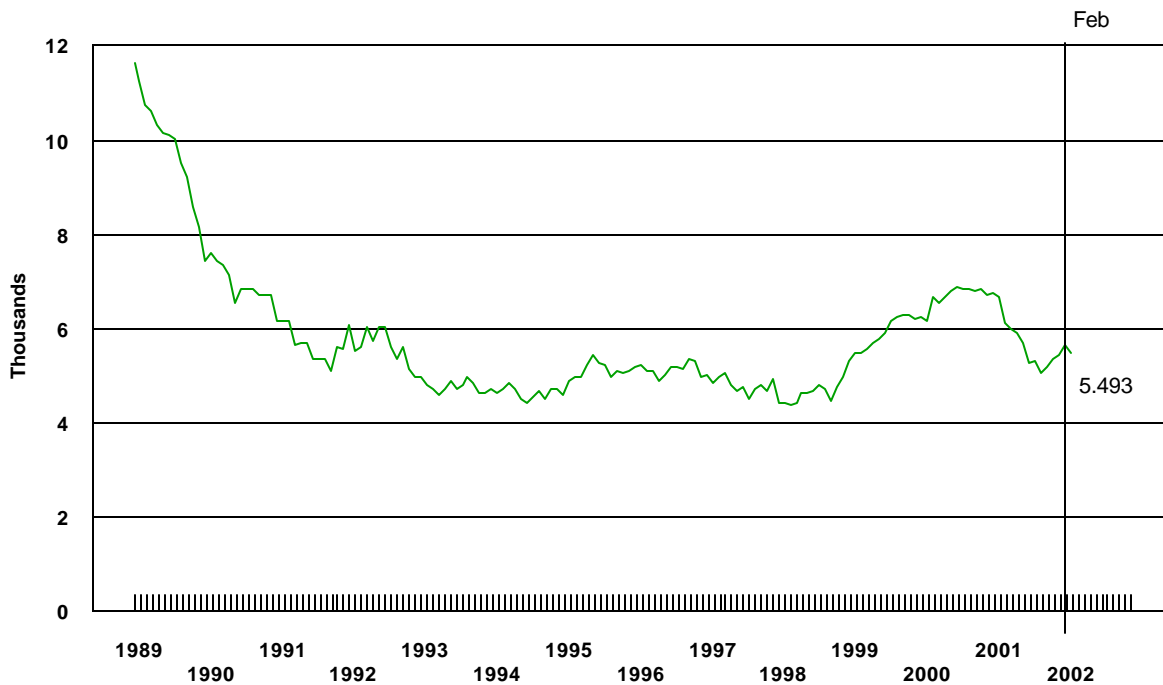


CHART 18

Central Me. Power Co. Residential Customers Change From One Year Ago



Source: Central Maine Power Co.

CHART 19

Maine Household Change 1960-2000

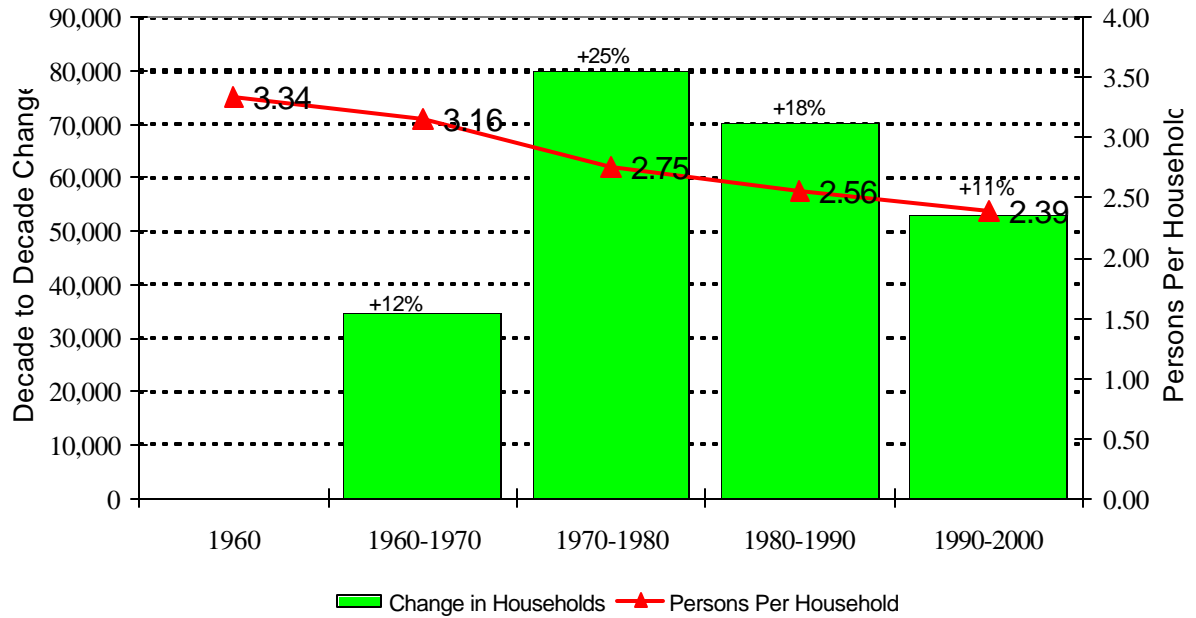
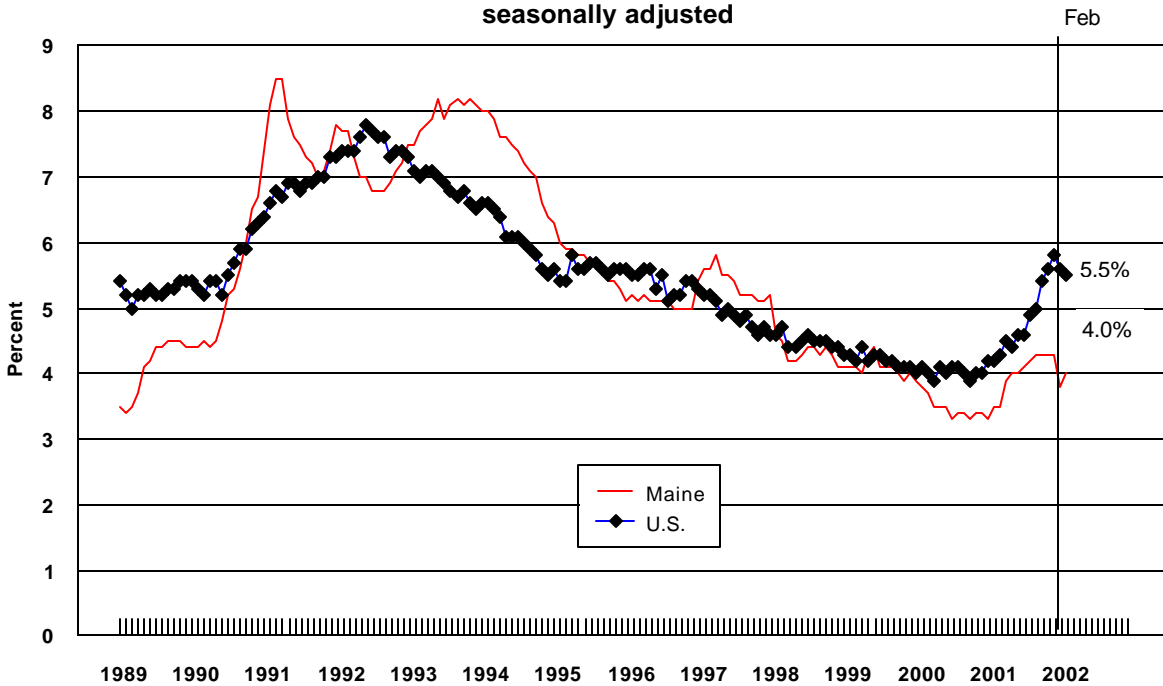


CHART 20

Unemployment Rates; Maine and U.S. seasonally adjusted



Source: Maine Dept. of Labor

CHART 21

S&P 500 Index (1941-43=10) (monthly avg)

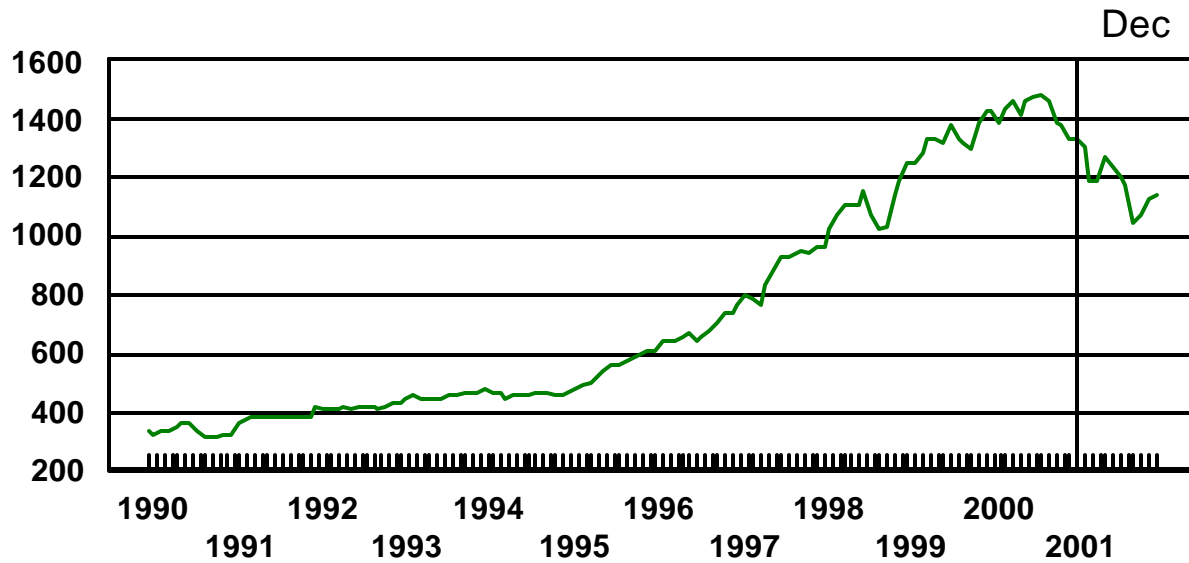


CHART 22



CHART 23

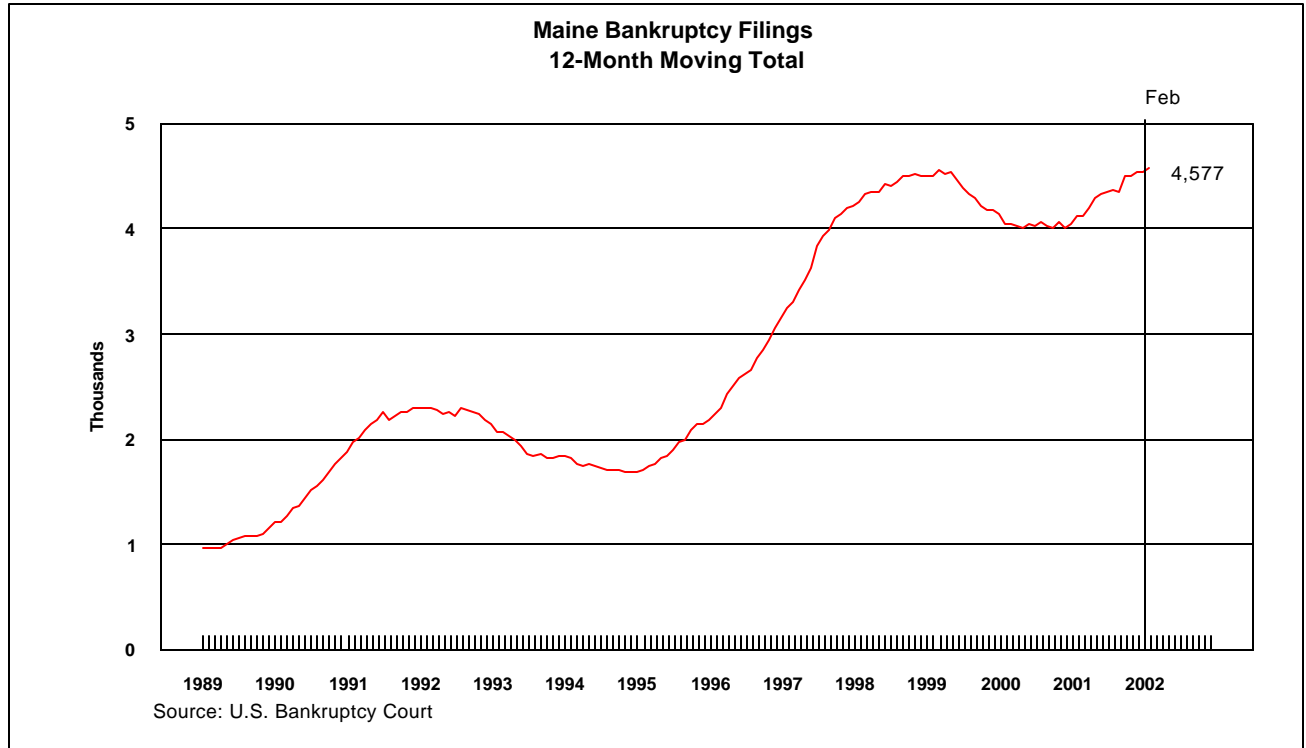


CHART 24

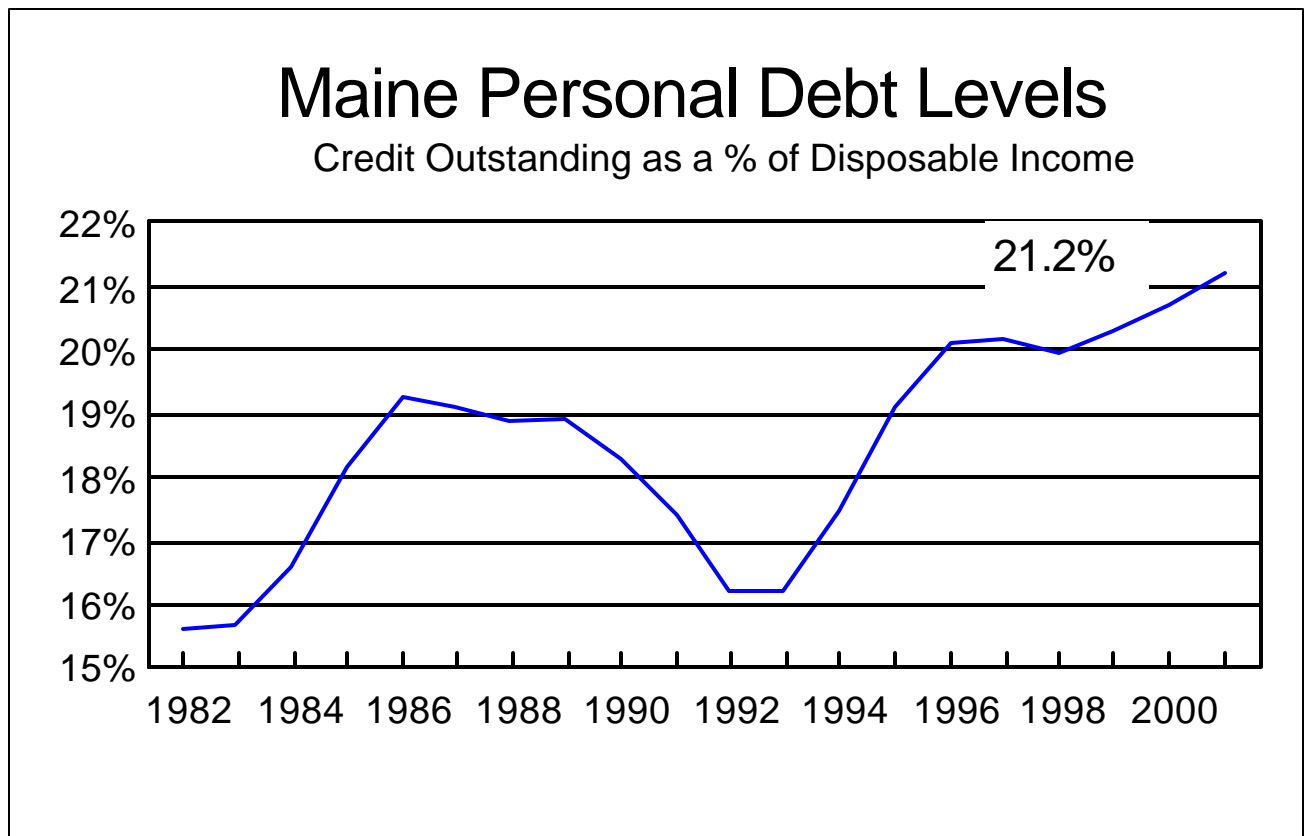


CHART 25

Multiple Job Holding Rates; US & Maine

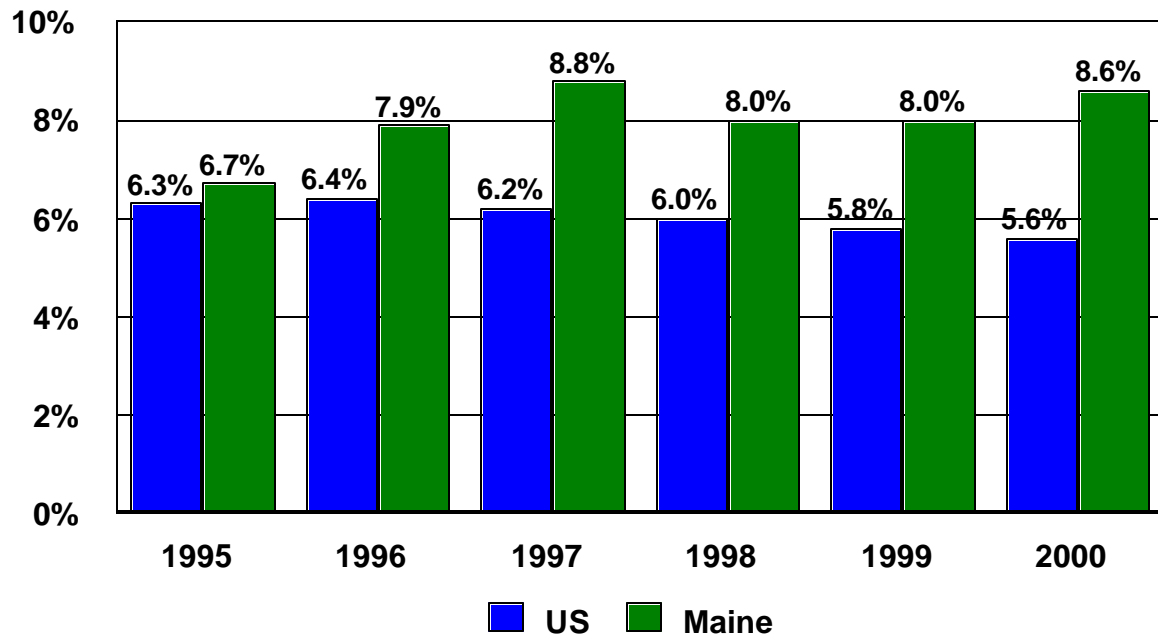


CHART 26

US Personal Saving Rate

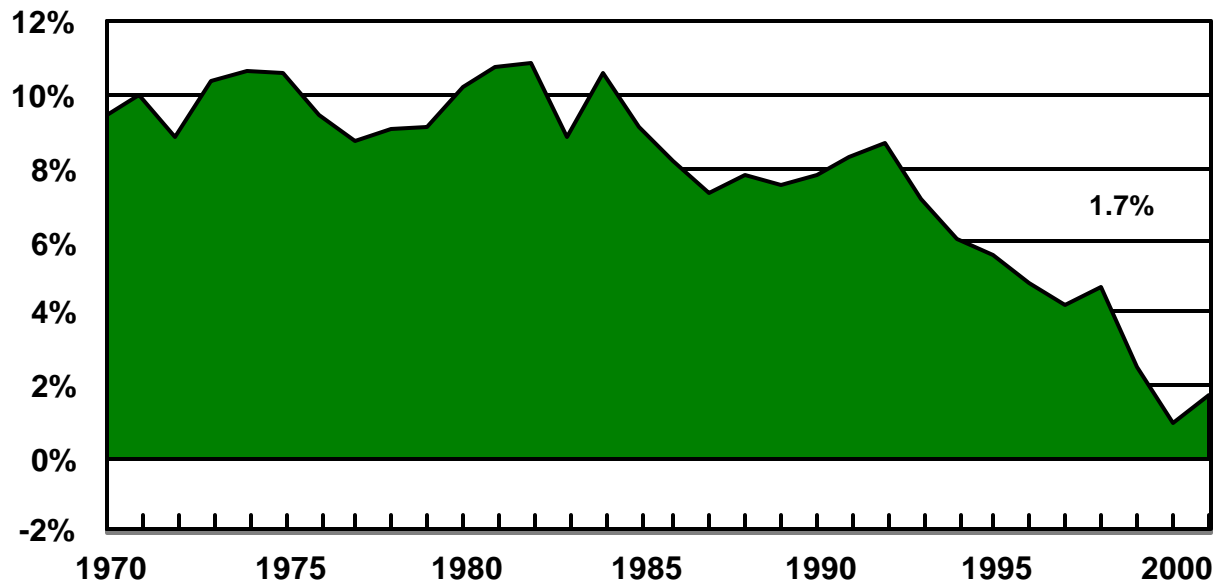


CHART 27

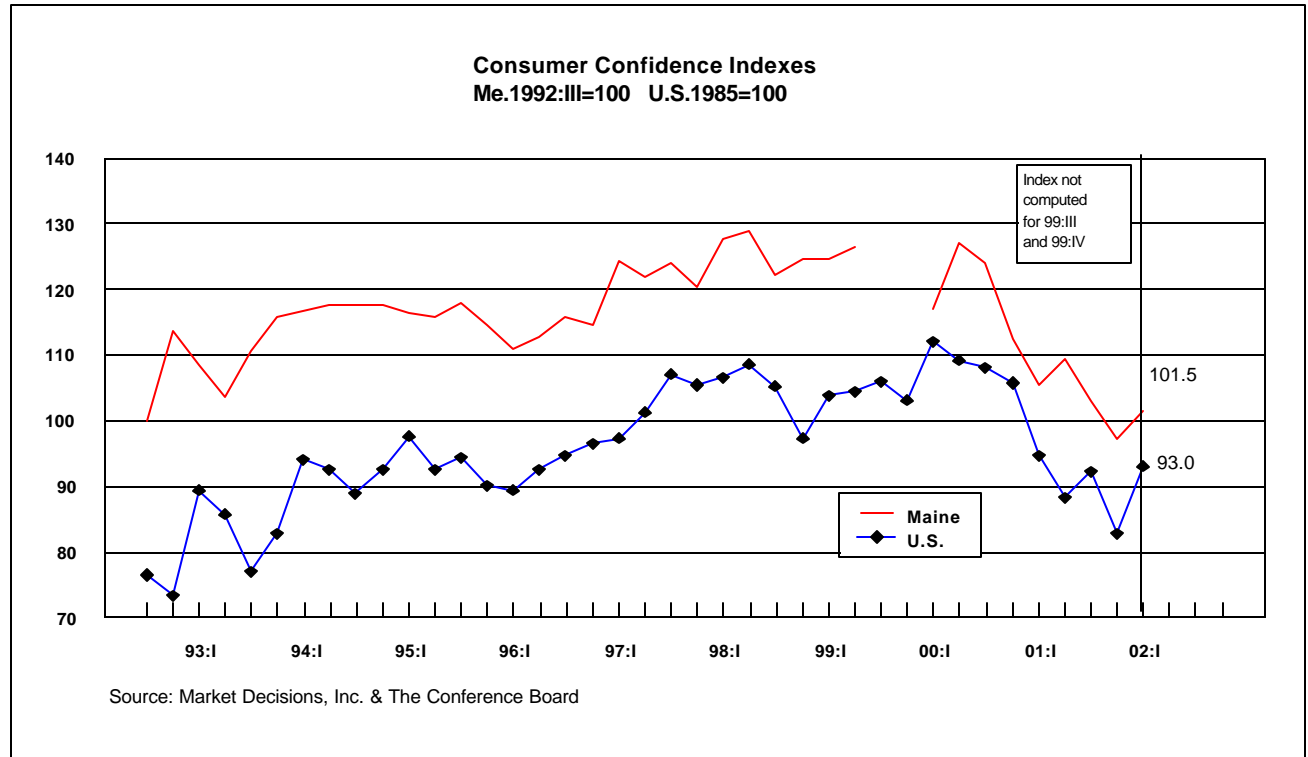


CHART 28

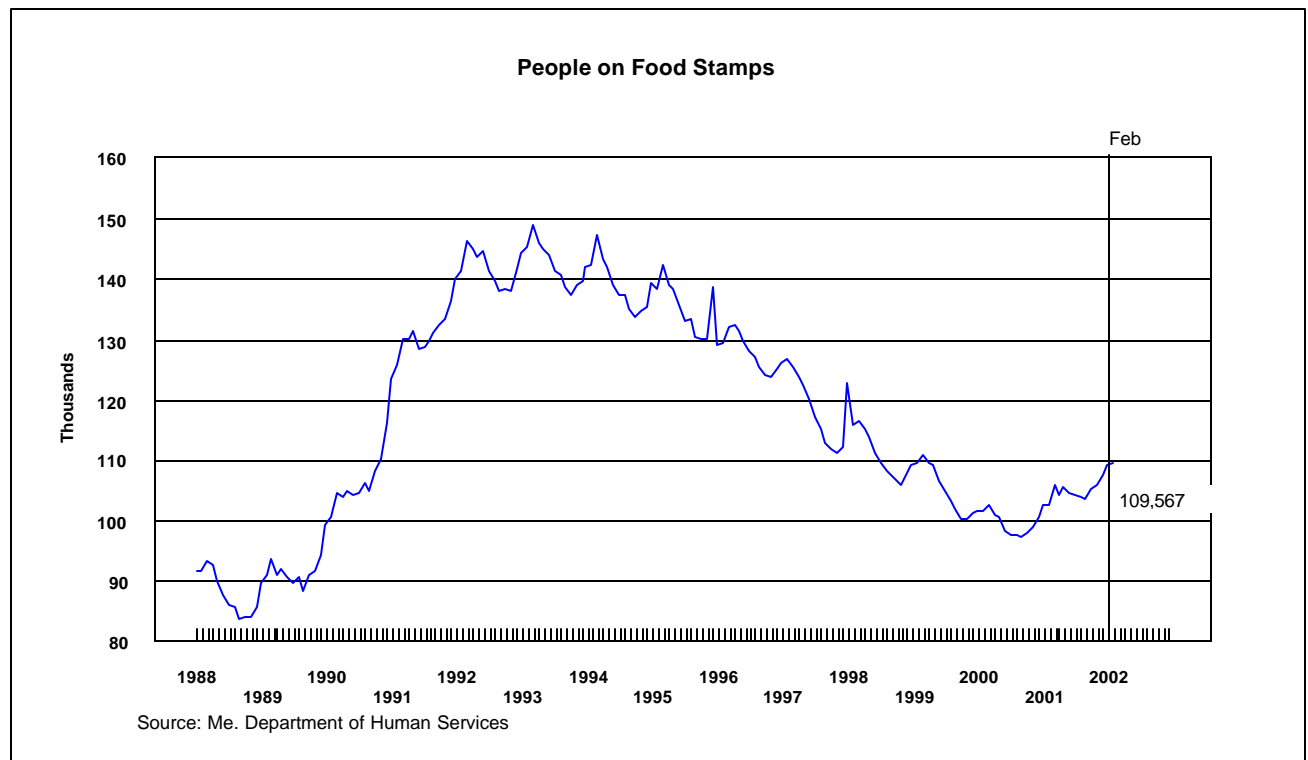


CHART 29

Real Gross Domestic Product and Consumer Price Index

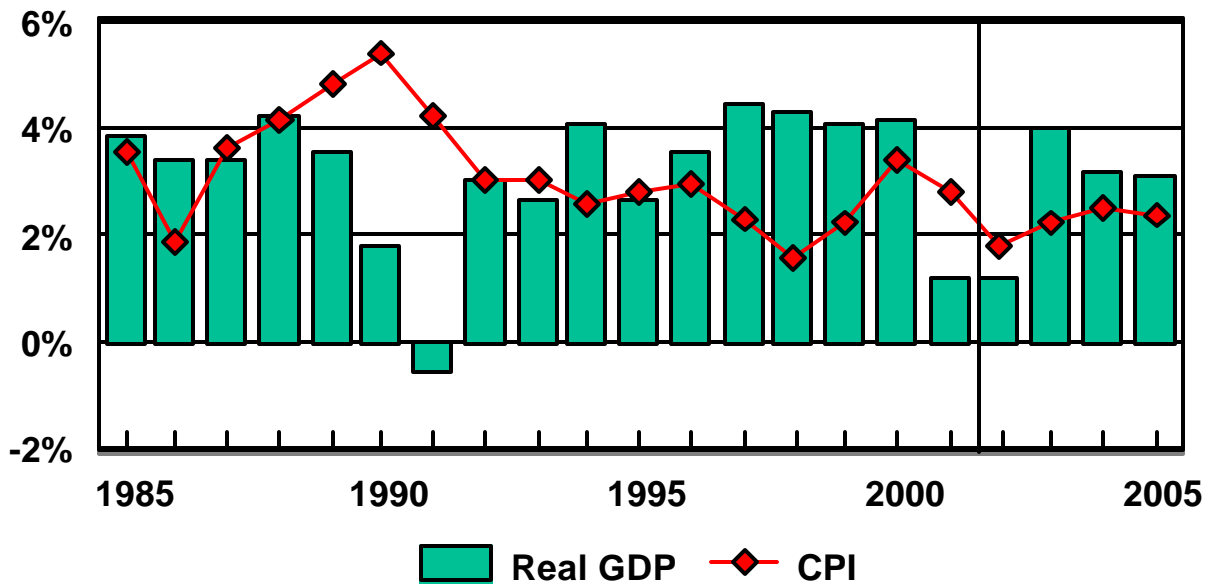


CHART 30

ME Wage & Salary Empl. Forecast

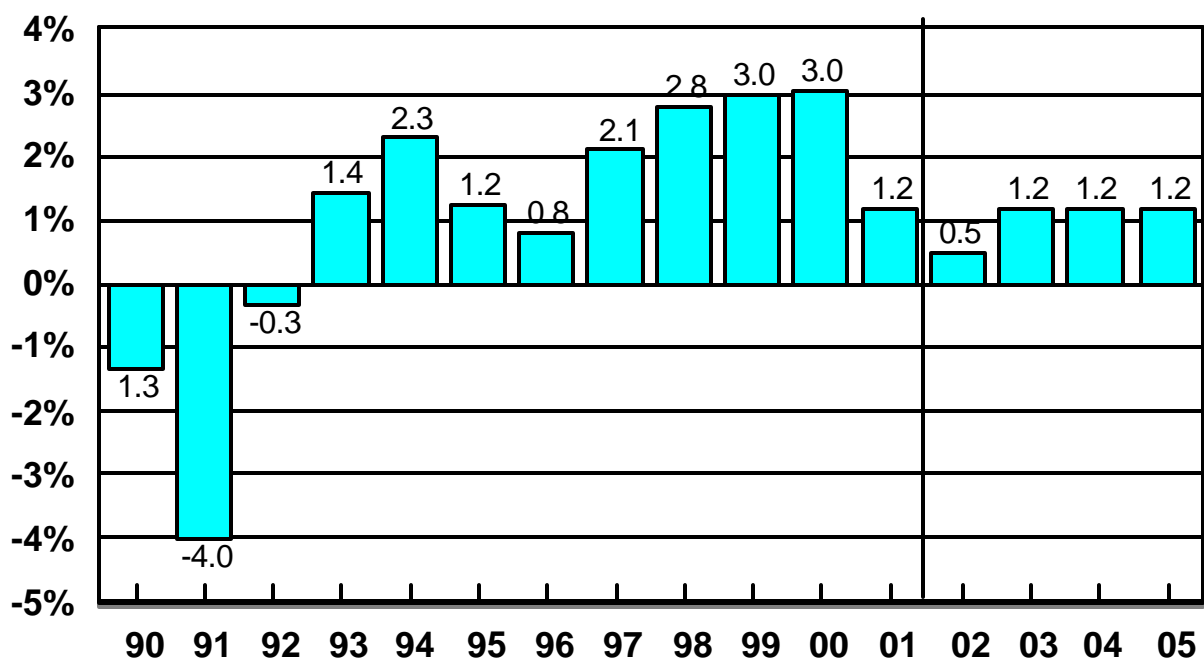


CHART 31

ME Personal Income Forecast

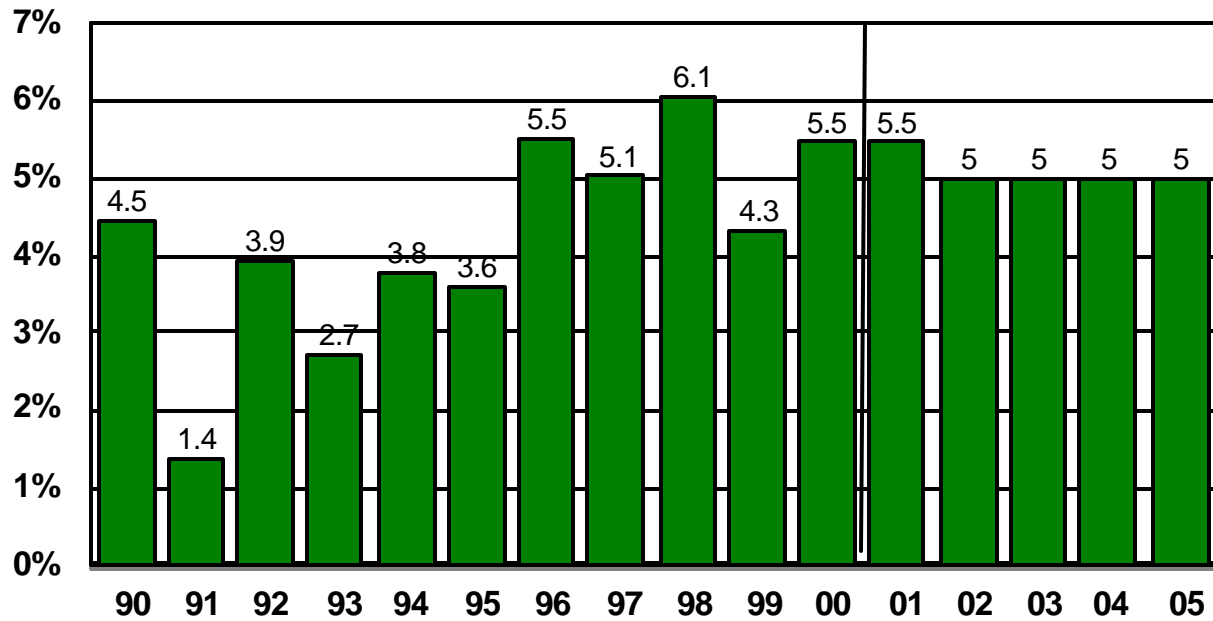


CHART 32

Maine Housing Permits

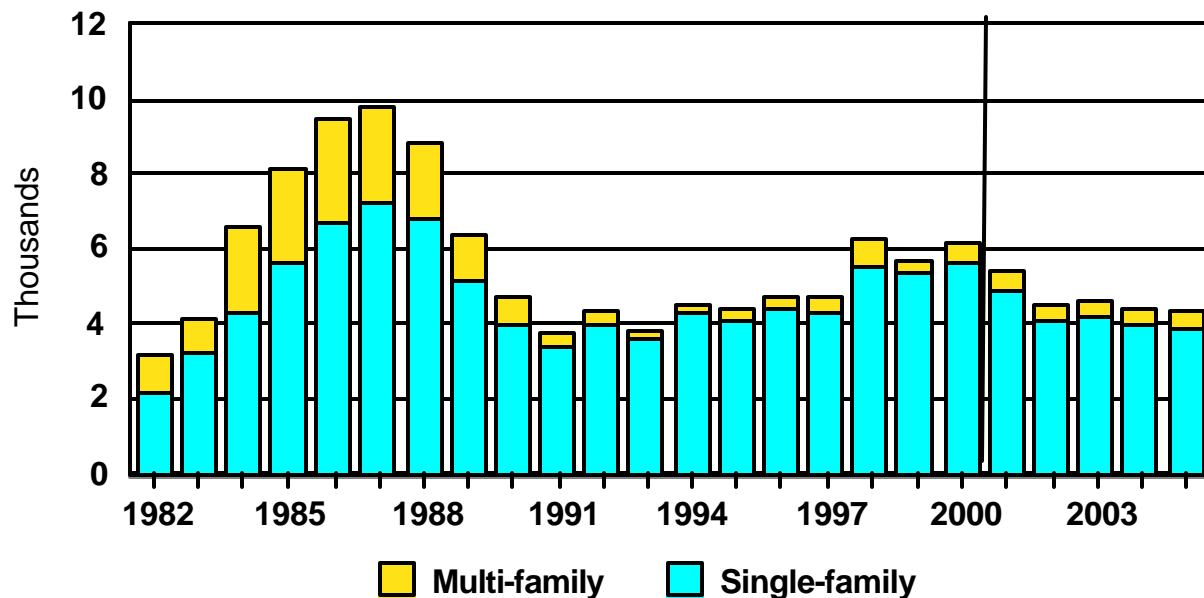


CHART 33

Maine County Population Forecast Ann. Avg. Growth 1998-2005

